MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BAC4644 – ADVANCED TAXATION

(All sections / Groups)

4 MARCH 2016
9.00 AM TO 12.00 PM
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 10 (ten) pages (including the cover page) with 5 Questions only.

2. Attempt **ALL** questions. The distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

QUESTION 1 (25 marks)

Your manager met with the group chief financial officer of the MetroGaya group of companies. Extracts from the record of their meeting and an email from your manager are set out below.

Extract from the record of the meeting

The MetroGaya Group

The group comprises MetroGaya Sdn Bhd, the holding company, and two wholly-owned subsidiaries, Metro Sdn Bhd and Gaya Sdn Bhd. All three companies make up their accounts annually to 30 June. They run profitable businesses as follows:

(i)	MetroGaya Sdn Bhd:	Retail stores for groceries and household goods
(ii)	Metro Sdn Bhd:	Distribution of a brand of beverage
(iii)	Gaya Sdn Bhd:	Budget hotel

Raising finance

The group wants to expand, and estimates that the expansion will require about RM200 million of additional capital.

The group also intends to list on the Bursa Malaysia and to carry out an initial public offering (IPO) in three years' time.

Expansion exercise

The expansion plans entail the following:

- Creating a new group holding company, NewCo, which will wholly own all three operating companies, as well as some other investments. NewCo may occasionally render management services to its subsidiaries. NewCo will become the listed vehicle on Bursa Malaysia after the IPO.
- Opening ten more outlets for MetroGaya Sdn Bhd throughout Malaysia.
- Adding more product lines to optimise the distribution network of Metro Sdn Bhd.
- Upgrading the budget hotel owned by Gaya Sdn Bhd to serviced suites for business travellers.

The expansion will involve the following capital expenditure:

- Setting up ten more outlets including renovations, fittings and equipment.
- Securing distribution rights to more product lines and acquiring additional delivery vans.

Continued ...

- Upgrading the hotel to serviced suites requiring new furniture, fittings and equipment, and renovations.

Extract from an email from your manager

I trust you have read the extract of the record of the meeting I passed to you yesterday.

In preparation for my next meeting with the MetroGaya group, please prepare the following:

(a) Raising capital of RM200 million

An explanation of the tax implications of raising capital by way of:

- a loan to be taken from a commercial bank by each user company;
- loans from shareholders who are also directors; and
- additional equity from existing shareholders.

Among other things, ensure that you explain the tax treatment of the incidental expenses of raising the capital, the interest expense on the amount borrowed and the potential control over the interest rate applicable.

(b) Mode of financing the fixed asset acquisitions

An explanation of the tax implications of using:

- operating leases;
- finance leases (which are not deemed sales); and
- outright purchase.

You should approach this from the perspective of:

- eligibility for capital allowances (CA): how much and how many years to deplete the CA claim;
- eligibility for a tax deduction in arriving at adjusted income; and
- maintenance costs.

(c) Group holding company

An explanation of why NewCo will be an investment holding company.

Also, provide a tabulated summary of the income tax treatment which will be accorded to NewCo before and after its listing on the Bursa Malaysia, with respect to the following:

Continued ...

- the classification of income;
- the deductibility of direct and common expenses; and
- the availability of CA.

Required:

Carry out the work required as requested in the email from your manager.

(a) Raising capital of RM100 million.

(8 marks)

(b) Mode of financing the fixed asset acquisitions.

(7 marks)

(c) Group holding company (NewCo).

(10 marks)

[Total: 25 marks)

QUESTION 2 (20 marks)

Prosperous REIT, a real estate investment trust, was first established on 1 May 2013. It made up its first set of accounts to 31 January 2014 and intends to continue to make up its accounts to 31 January annually.

Prosperous REIT derives rental income from letting out commercial lots in the mall and ten units of factories in an industrial estate. All of the factories will be used for manufacturing by the tenants. All ten factories are identical units and were acquired en bloc on 1 December 2014 for RM2.5 million, of which RM1 million related to the cost of land. The ten units of factories will all be let out from 1 January 2015.

The income statement of Prosperous REIT for the year ended 31 December 2015 is expected to indicate the following:

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Prosperous REIT
Income Statement for the year ended 31 December 2015

	RM'000	RM'000
Rent from malls		8,000
Rent from factories		50
Interest		22
Dividends		10
Total gross income		8,082
Less: Expenditure		
Audit fee	20	
Depreciation	25	
Management fee	805	
Property maintenance charges	790	
Secretarial fee	5	
Trustee administration fee	35	
Other expenses (Note)	5,890	7,570
		512

Note: The 'Other Expenses' are fully deductible for income tax purposes.

Required:

(a) Explain how the basis periods of Prosperous REIT for the years of assessment (YA) 2013, 2014 and 2015 will be determined.

(5 marks)

(b) Compute the total income for tax purposes of Prosperous REIT for YA 2015 based on the information above.

Note: Label the figures comprising the stages of the computation and indicate, by the use of the word 'nil', any item shown in the income statement which is not taxable or not deductible.

(8 marks)

(c) State, giving reasons, the tax which will be payable by Prosperous REIT for YA 2015, if it proposes to distribute 91.5% of its total income for the year of assessment 2015 to its unit holders on 15 March 2015.

(2 marks)

(d) In respect of YA 2015, for unit holders who are resident individuals, state how the distribution will be taxed and whether or not the amount received will need to be reported in their annual returns.

(2 marks)

Continued ...

(e) In respect of YA 2015, for unit holders who are resident companies, state how the distribution will be taxed and the effective tax rate(s) which might apply.

(3 marks)
[Total: 20 marks]

QUESTION 3 (20 marks)

(a) Planet Sdn Bhd (Planet) has identified Sun Sdn Bhd (Sun), a Malaysian resident, as a suitable investment. Both companies Planet and Sun are currently unrelated.

Sun has been manufacturing solar panels for three years and has an accumulated tax loss of RM6·8 million and unabsorbed capital allowances (CA) of RM1·5 million as at the year ended 31 May 2015. Apart from the solar panel manufacturing business, Sun does not have any other assets or sources of income.

Sun expects to make an accounting profit of about RM8·5 million in the year ended 31 May 2016. The negotiated price for Planet either to purchase Sun's shares or take over Sun's manufacturing business (purchase of assets and liabilities) is RM75 million.

Whichever alternative is chosen, Planet will finance the acquisition with a loan of RM55 million from its non-resident parent company and RM20 million from a Malaysian commercial bank. The annual interest rates on these loans will be 11.5% and 7% respectively.

Required

(i) Discuss any transfer pricing issues on the negotiated price of RM75 million and the interest rates on the borrowings from the commercial bank and the parent company.

(4 marks)

(ii) Treatment of unabsorbed losses and capital allowances brought forward.

(6 marks)

(b) In respect of the Goods and Services Act 2014 (as amended) ['Act']:

(i) Explain the three (3) types of supply under the said Act.

(5 marks)

(ii) Explain the conditions for registration under the Act including how the taxable turnover is determined.

(5 marks)
(Total: 20 marks)
Continued ...

QUESTION 4 (20 marks)

(a) Marine Shipping Pte Ltd is a shipping company resident in Singapore whose principal activity is the transportation of passengers and cargo by sea. For the year ended December 31, 2015, its gross freight earnings from Malaysia amounted to RM1,500,000.

Marine Shipping Pte Ltd obtained the certificate from the Singapore Revenue authorities for the year ended December 31, 2015. The certificate, which is acceptable to the Director General of Inland Revenue Malaysia, stated the following:

Particulars	RM'000
World gross freight earnings for the year ended December 31, 2015	17,000
Adjusted income for the year ended Dec 31, 2015 for Singapore tax purposes	763
World capital allowance for the year of assessment 2015	41

Required:

Compute the Malaysian tax payable by Marine Shipping Pte Ltd for the year of assessment 2015 using the five percent method under section 54(3) and the acceptable certificate method under section 54(4) of the Income Tax Act 1967 (as amended).

(4 marks)

b) Excellent Insurance Malaysia Berhad is a Malaysian resident insurance company. The following information has been extracted from its accounts for the year ended December 31, 2015:

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	Life Insurance		General Insurance
	Life Fund	Shareholder's Fund	
	RM'000	RM'000	RM'000
Gross income			
Gross premiums	15,000	350	9,000
Dividend income (Malaysian single tier)	250	0	650
Interest income	350	0	100
Rental income	150	0	150
Gross proceeds from sale of shares	2,000	1,000	900
Gross proceeds from sale of building	1,000	0	0
Less: Expenses			
Net claims incurred	0	0	5,000
Commissions	200	0	100
Management expenses	750	0	550
Cost of shares sold	2,550	500	750
Cost of building sold	950	0	0
Reserve for unexpired risks as at December 31, 2015	0	0	1,500

Other information (General Insurance):

1. The details of the gross premium and reinsurance premiums paid during the year, and the reserve for unexpired risk provided for are as follows:

c o m p a n y	Particulars	Marine, aviation & transit policies	Fire, motor & other policies
		RM'000	RM'000
(a)	Gross premiums	5,500	3,500
(b)	Reinsurance premiums in Malaysia	500	500
(c)	Reinsurance premiums outside Malaysia	400	0
(d)	Reserve for unexpired risks as at December 31,2015	1,000	500

2. The company provided 50% reserve for marine, aviation and transit policies. But the reserve for fire, motor and other policies is made on the basis of actuarial computation under FRS 202 that is consistently used and approved under section 60(9)(b) of the Income Tax Act 1967 (as amended).

Continued ...

3. Reserve for unexpired risks as at December 31, 2014 i.e. brought forward for tax purposes was RM1,500,000.

4. Capital allowances for the year of assessment 2015 in respect of life insurance business and general insurance business amounted to RM900,000 and RM750,000 respectively.

5. Unabsorbed business loss brought forward in respect of the general insurance business amounted to RM30,000.

Required:

Compute the tax payable by Excellent Insurance Malaysia Berhad for the year of assessment 2015.

Note: The income tax rate for Life Fund is 8% and for the Shareholder's Fund and the General Insurance is 25%.

(12 marks)

c) Perfect Development Sdn Bhd (PDSB) is a Malaysian resident property development company. It is involved in the construction of a high rise condominium project. The finance manager, Mr. Lim, of PDSB is aware that the Income Tax (Property Development) Regulations 2015 (the Regulations) has been issued by the tax authorities and has approached you for tax advice on the following matters:

(i) Determination on the date of commencement of a property development business;

(ii) Treatment of common infrastructure costs and how it is ascertained; and

(iii) Determination on the date of completion of a property development project.

Required:

Advise Mr. Lim regarding the above maters raised in relation to the Income Tax (Property Development) Regulations 2015.

(4 marks)
(Total 20 marks)

QUESTION 5 (15 marks)

The Indian Coffee Shop Association ('the association') was registered in 1998 as a trade association with the aim of safeguarding and promoting the business of its members. For the year ended 31 December 2015, the association prepared the following accounts:

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The Indian Coffee Shop Association
Statement of Accounts for the period 1 January 2015 to 31 December 2015

		RM
Income		
Membership subscription		143,826
Seminar fees		71,913
'Deepavali Festival' surplus		42,552
Malaysian single tier dividends		20,425
Fixed deposit interest		1,702
Total income		280,418
Less: Expenses		
Salary and wages	73,530	
Rental of seminar hall	61,275	
'Deepavali Festival' expenses	17,872	
Speaker fees	12,255	
Employee's Provident Fund	9,559	
Stationery	7,353	
Utility expenses	6,127	
Painting of premises	3,149	
Donation and contributions	2,451	
Assessment	1,471	
Quit rent	490	195,532
Surplus of income over expenditure		84,886

The association furnished the following information:

(i) The association is entitled to a capital allowance of RM900 for year of assessment 2015 on its common assets. It has no special assets that are used for any special or particular purposes.

(ii) The 'Deepavali Festival' expenses consisted of food, drinks, and fees for performance by well-known local artists and celebrities. The surplus of the money from the event was placed in a fixed deposit of the association.

(iii) Several speakers and business leaders were invited to give lectures at several seminars as well as conduct workshops that were held during the year for the benefit of the association's members.

(iv) During the year, the association had made some charitable contributions, including a donation of RM1,000 to an approved institution for which an official receipt is available.

Required:
Compute the income tax liability of the Indian Coffee Shop Association for the year of assessment 2015.

(15 marks)

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